



IOWA GENERAL ASSEMBLY
LEGISLATIVE SERVICES AGENCY

DENNIS C. PROUTY, DIRECTOR
 IOWA STATE CAPITOL
 DES MOINES, IA 50319
 515.281.3566
 Fax: 515.281.8027
dennis.prouty@legis.state.ia.us

DIVISIONS

LEGAL SERVICES
 RICHARD L. JOHNSON

FISCAL SERVICES
 HOLLY M. LYONS

COMPUTER SERVICES
 GLEN P. DICKINSON

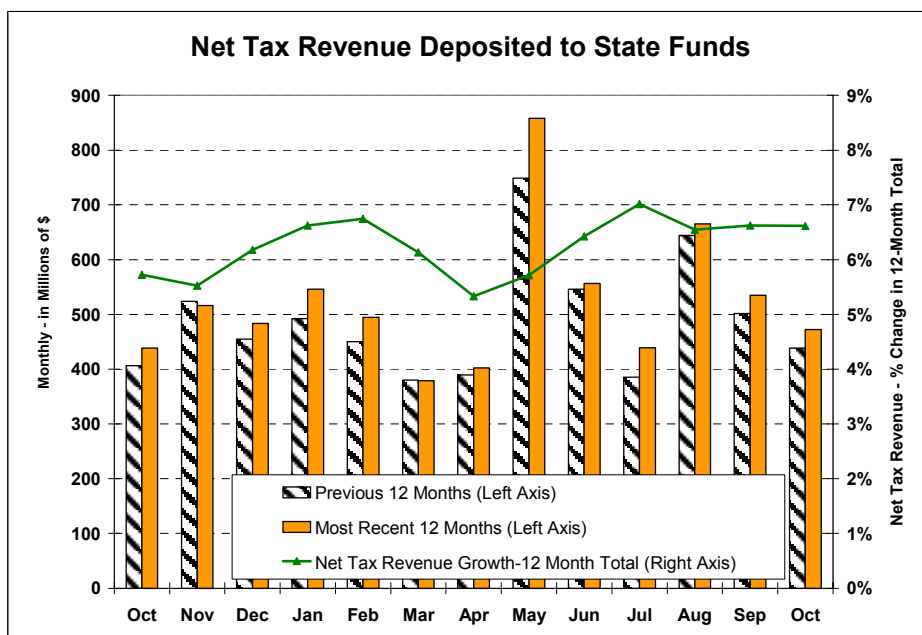
ADMINISTRATIVE SERVICES
 TIMOTHY C. FALLER

MEMORANDUM

TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives
 FROM: Jeff Robinson
 Shawn Snyder
 DATE: November 19, 2007

Twelve-month Total Net Tax Receipts Through October 31, 2007

The attached spreadsheet presents net State tax receipts for the 12-month period ending October 2007 with comparisons to the previous 12 months. October 2007 to October 2006 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those tax receipts.



Month of October Comparison

October net tax receipts totaled \$472.3 million, an increase of \$33.8 million (7.7%) compared to October 2006. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$14.7 million, 7.6%) – Gross receipts were up \$17.8 million while Income Tax refunds increased \$3.1 million for the month. Gross receipts growth was driven by strong estimate payments.
- Corporate Income Tax (positive \$3.9 million, 17.3%) – Gross receipts decreased \$6.3 million and refunds decreased \$10.3 million.

October's growth follows two negative growth months for net Corporate Income Tax.

- Sales/Use Tax (negative \$3.7 million, - 2.7%) – General Fund Gross Sales/Use Tax receipts decreased \$4.3 million and Use Tax deposited to the Road Use Fund increased \$0.3 million. Refunds issued for the month decreased \$0.2 million.
- Fuel Tax (positive \$4.1 million, 10.6%) – Gross Fuel Tax revenue increased \$3.9 million while refunds processed in the month decreased \$0.2 million.
- Cigarette & Tobacco Taxes (positive \$13.9 million, 159.8%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending October 2007, net revenue from all taxes deposited to State funds totaled \$6.348 billion, an increase of \$393.9 million (6.6%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual Income Tax (positive \$275.5 million, 11.3%) – Growth has generally been strong in all three components of Individual Income Tax receipts, withholding, estimate payments, and payments with returns. The latest 12 months were boosted by changes to the State's income tax withholding tables that started April 2005 and ended April 2007.
- Corporate Tax (positive \$28.2 million, 9.7%) – Corporate Tax has shown strong growth since 2003. The rate of growth has tapered off over the last six months.
- Sales/Use Tax (positive \$5.8 million, 0.3%) – The rate of Sales/Use Tax growth has been slowing steadily over the past 12 months. Higher gas prices and declining home equity withdrawals are likely contributing to the lagging receipts of both the General Fund and the Road Use Tax Fund (vehicle sales), while the General Fund is also impacted by reduced new home construction.
- Fuel Tax (positive \$16.7 million, 3.8%) – Net Motor Fuel tax revenue has been flat to slightly positive over the past two years, likely the result of higher fuel prices reducing the growth in fuel demand.
- Gambling Tax (positive \$20.0 million, 7.5%) – New casino boats have started operations and existing track casinos have introduced table games during the last 12 months.
- Cigarette and Tobacco Tax (positive \$88.3 million, 89.7%) – The tax rates for cigarettes and other tobacco products were increased March 16, 2007.
- Insurance Premium Tax (negative \$35.2 million, - 26.5%) – The Insurance Premium Tax rate is being reduced over multiple years. Calendar year 2007 is the first year all premiums are taxed at the 1.0% rate. The use of tax credits may also be impacting this revenue source.

Tax Spotlight – Individual Income tax

Iowa individual income is taxed under the authority of Chapter 422, Division II, Code of Iowa. The Iowa Individual Income Tax is imposed on Iowa taxable income of individuals, estates and trusts. Individuals who have a combined net income of less than \$13,500 (\$9,000 for single taxpayers) are not generally required to pay Iowa income tax or submit an Iowa income tax return. This "filing threshold" does not apply to taxpayers claimed as dependants on another tax return. Iowa uses federal adjusted gross income as the initial point for tax calculation.

The Iowa Individual Income Tax was first imposed in 1934 with a minimum marginal rate of 1.0% and a maximum marginal rate of 5.0% (as passed by HF 1 - Income, Corporation, and Sales Tax Act). The current tax rates were established in 1998 (HF 388 – Individual Income Tax Rates Act) and are applied to nine taxable income brackets ranging from a minimum marginal tax rate of 0.36% and a maximum

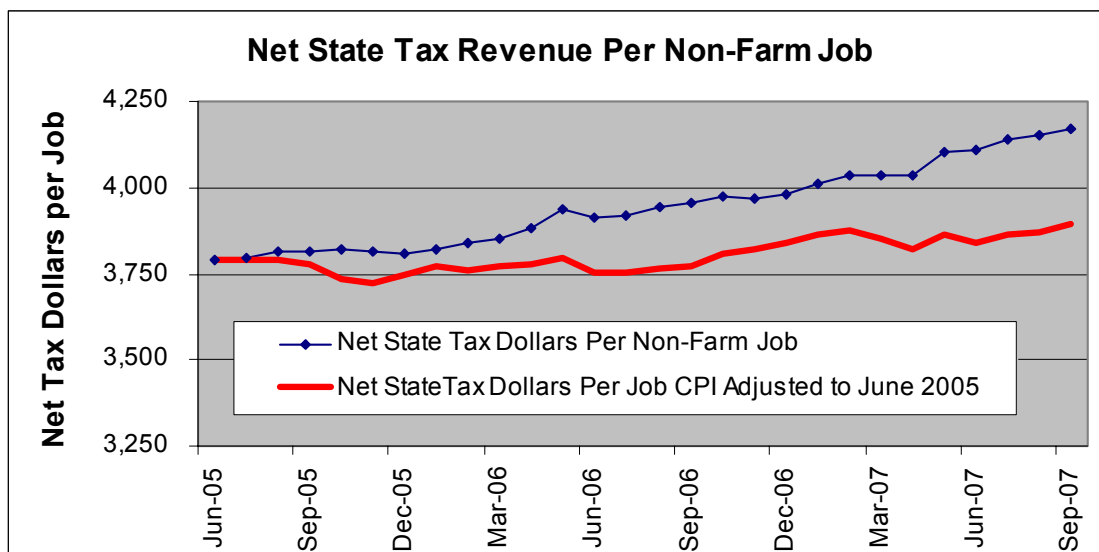
marginal tax rate of 8.98%. The taxable income brackets are adjusted each year by the Department of Revenue based on an inflation factor. For the 2007 tax year, the maximum marginal tax rate applies to taxable income above \$60,435. An alternative minimum tax may be imposed at an effective rate of 6.7% if it exceeds the individual, estate, or trust's regular tax liability.

There are a large number of tax credits that may provide a reduction in Individual Income Tax. A complete list is located at <http://www.state.ia.us/tax/taxlaw/Taxcredits07.pdf>. With the passage of SF 590 (Iowa Earned Income Tax Credit Act of 2007), the Iowa Earned Income Tax Credit increased from 6.5% to 7.0% of the federal credit and makes the credit refundable beginning with tax year 2007.

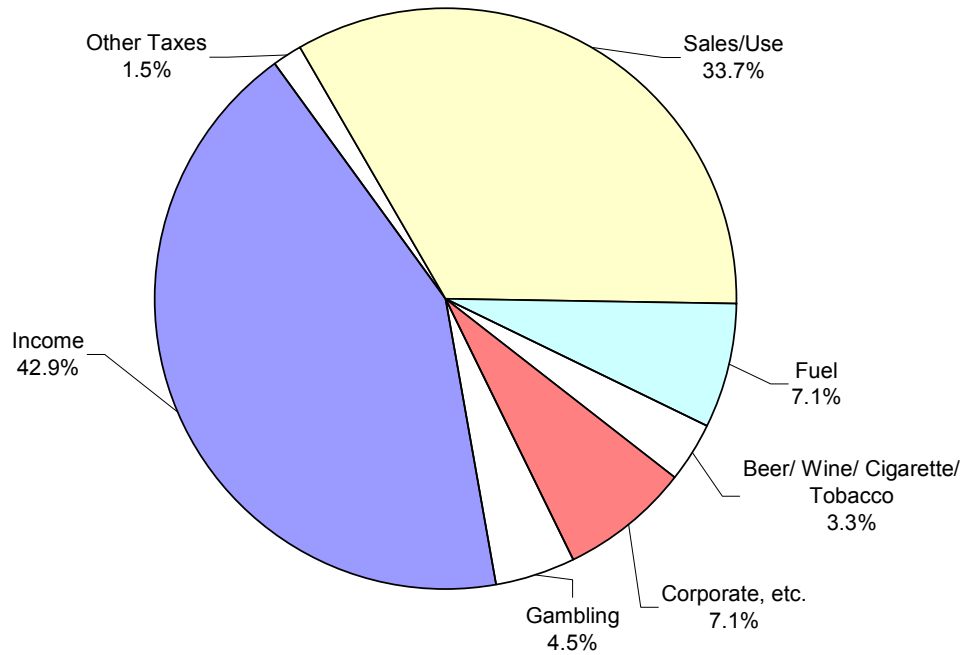
Individual income tax returns are filed by the last day of the fourth month following the end of the tax year (April 30). In some cases, individuals may be required to remit quarterly estimated tax payments. Withholding tax is due monthly, semimonthly, or quarterly, depending on the total amount of income tax withheld. In general, Individual Income Tax revenues are deposited in the State General Fund. Pursuant to Section 422.16A, Code of Iowa, up to \$4.0 million from withholding tax is deposited in the Workforce Development Fund each year. Section 422.100, Code of Iowa, requires that withholding tax receipts of \$650,000 each quarter (\$2.6 million annually) are credited to the Child Care Credit Fund.

Tax Revenue and Employment

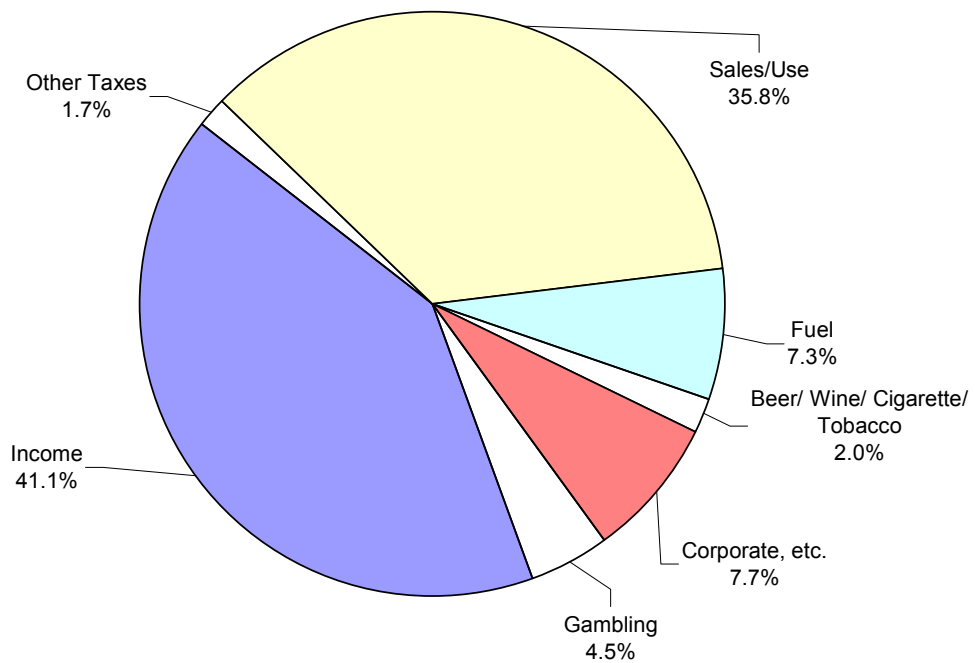
The average reading for Iowa non-farm employment over the 12 months ending September 2007 is 1,516,900, and net State tax receipts over the same 12 months totaled \$6.314 billion, or \$4,167 per non-farm job. This is \$378 (10.0%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 7.2%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.2% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending October 2007
Net Revenue = \$6.348 Billion



Net State Tax Revenue - Twelve Months Ending October 2006
Net Revenue = \$5.954 Billion



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of October 2006	Month of October 2007	October \$ Change	October % Change
Banking	\$ 32.1	\$ 33.3	\$ 1.2	3.7%	\$ 2.8	\$ 3.4	\$ 0.6	21.4%
Beer & Wine	19.9	20.4	0.5	2.5%	1.5	1.5	0.0	0.0%
Cigarette & Tobacco	98.4	186.7	88.3	89.7%	8.7	22.6	13.9	159.8%
Corporate Income	292.1	320.3	28.2	9.7%	22.5	26.4	3.9	17.3%
Fuel	437.1	453.8	16.7	3.8%	38.7	42.8	4.1	10.6%
Gambling	266.5	286.5	20.0	7.5%	21.2	23.4	2.2	10.4%
Individual Income	2,445.0	2,720.5	275.5	11.3%	194.2	208.9	14.7	7.6%
Inheritance	72.1	72.0	- 0.1	-0.1%	6.6	5.2	- 1.4	-21.2%
Insurance	132.8	97.6	- 35.2	-26.5%	0.1	0.0	- 0.1	-100.0%
Other Taxes	8.8	2.3	- 6.5	-73.9%	2.5	1.9	- 0.6	-24.0%
Real Estate Transfer	18.7	18.2	- 0.5	-2.7%	1.2	1.4	0.2	16.7%
Sales/Use	2,130.7	2,136.5	5.8	0.3%	138.5	134.8	- 3.7	-2.7%
Total Net Taxes	\$ 5,954.2	\$ 6,348.2	\$ 393.9	6.6%	\$ 438.5	\$ 472.3	\$ 33.8	7.7%
Gross Tax & Refunds								
Gross Tax	\$ 6,607.6	\$ 7,022.1	\$ 414.5	6.3%	\$ 475.5	\$ 501.5	\$ 26.0	5.5%
Tax Refunds	\$ - 653.3	\$ - 674.0	\$ - 20.7	3.2%	\$ - 37.0	\$ - 29.3	\$ 7.7	-20.8%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,028.9	\$ 5,373.8	\$ 344.9	6.9%	\$ 354.7	\$ 376.8	\$ 22.1	6.2%
Road Use Tax Fund	\$ 673.0	\$ 707.2	\$ 34.2	5.1%	\$ 54.5	\$ 59.1	\$ 4.6	8.4%
Non-GF Gambling	\$ 207.7	\$ 226.5	\$ 18.8	9.1%	\$ 19.5	\$ 23.2	\$ 3.7	19.0%
Other State Funds	\$ 44.7	\$ 40.6	\$ - 4.1	-9.2%	\$ 9.8	\$ 13.1	\$ 3.3	33.7%
Local Option Taxes *	\$ 591.7	\$ 690.6	\$ 98.9	16.7%	\$ 37.1	\$ 47.4	\$ 10.3	27.8%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (bank) Tax: Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

Beer & Wine: Tax on beer is deposited to the State General Fund. The tax on wine is deposited to the Liquor Control Fund and a Department of Economic Development Fund. Prior to FY 2008, a portion was deposited to a Fund controlled by the Department of Agriculture and Land Stewardship.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate Income Tax: All Corporate Tax is deposited to the State General Fund.

Motor fuel Tax: All Motor Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

Individual Income Tax: Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All Inheritance Tax is deposited to the State General Fund.

Insurance Premium Tax: All Insurance Premium Tax is deposited to the State General Fund.

Other Taxes: Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship's fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

Real Estate Transfer Tax: Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% of its share to the State General Fund and 5.0% to the Shelter Assistance Fund.

Sales/Use tax: General Sales/Use tax is deposited to the State General Fund, while most vehicle Use Tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle Use Tax is deposited to the Underground Storage Tank Program.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include School Infrastructure Local Option Sales Tax (SILO), Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.